The CREDIT WORLD

The Official Organ of the NATIONAL RETAIL CREDIT ASSOCIATION

VOL. XVI—No. 11

JULY 1928

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OUR PRESIDENT--JAMES RICHARD HEWITT

Our Kansas City Convention, by unanimous vote, elected James R. Hewitt, Credit Manager of The Hub, Baltimore, Maryland, President of our Association.

He is well known to our membership, for years active in the work of our organization, as a member of the Finance, Credit Department Methods and Co-operation Committees. Served three years as a member of the Board of Directors, one year as Second and one year as First Vice-President. Few men have been elected President who had a more intimate knowledge of the Association's affairs than Mr. Hewitt. Few have as wide a personal acquaintance among Credit Managers. He is familiarly known as "Dick" to thousands of our members, and none possess a more enviable reputation for integrity, sincerity, and clear thinking.

Born in Kentucky, he moved to Baltimore twenty-five years ago, associating with Stewart & Company, remaining with that firm fifteen years. He resigned to install the Credit Department of Eisenberg's, which had been a strictly cash store. A year later accepted a position as Credit Manager of The Hub, resigning to become Secretary of the local Wholesale Credit Association, but the officials of The Hub, recognizing his exceptional ability, induced him to return, and for the past ten years he has been in full charge of the Credit and Accounts Receivable Department of that great store.

He organized the Baltimore Association of Retail Credit Managers, and for seven consecutive years has been its President, a record never equalled.

Mr. Hewitt is intensely devoted to his family, consisting of his wife and four children, three boys and one girl. He is Past High Priest Masonic Chapter and Worshipful Master of his Masonic Lodge.

Every member can well be proud of our President. He is a leader by virtue of his ability. Let us make his administration a great success by giving him our loyal support and encouragement.

WELL DONE, MR. MEYER

When President Leopold L. Meyer, of Houston, Texas, surrendered the gavel to President-elect Hewitt at our Kansas City Convention, he had the satisfaction which comes of duty done and done well.

In years one of the youngest men to hold the office of President, Mr. Meyer brought to that office not alone his great knowledge of Credits, but his exceptional ability to do a large amount of work. Anyone reading the report of the Association's progress and activities during the past year, will realize his was an outstanding administration.

While his activities during the year and the Special Service features he had carried through caused our members to sit up and take notice, it was his ability as a presiding officer and his versatility in meeting every situation presented during the Convention that won the admiration of every delegate at Kansas City.

We are proud of Mr. Meyer. We owe him a debt of gratitude for his work, and we know that although he now bears the title of Past President, he will continue his interest in building our Association, and upon the foundations for service he has laid, we will build monuments of which he can be proud.

D. J. Woodlock

The National Retail Credit Survey

By **DR. JULIUS KLEIN**
Director U. S. Bureau of Foreign and Domestic Commerce

Read by Dr. Frank M. Surface at the National Retail Credit Men's Convention in Kansas City, June 18-22.

I share with you in the very deep regret that Dr. Klein is not here to address you this morning, and I want to emphasize particularly that this is not a "camouflage" on his part; that I know, personally, he has looked forward and has planned to come to this convention and to be here with you, today; that he is very vitally interested in this work, but, in addition to the illness to which Mr. Meyer referred, there have been a number of things which have come up in the Department, which, both together, he felt it was utterly impossible for him to leave. I received a telegram from him, this morning, which I would like to read to you:

"Please convey following message to Mr. Meyer, President, National Retail Credit Men's Association:

" 'Exceedingly regret unexpected and vitally important business prevents my attendance your convention. Please accept my earnest assurance that only an insurmountable obstacle would induce me to deny myself the pleasure of addressing your meeting. Have requested Dr. Surface to deliver my prepared talk, and to confer with your executives regarding arrangements for Retail Credit Survey, which bids fair to become one of the most useful and significant undertakings of this Department.

" 'Please convey to your members my deepest appreciation for collaboration in this work, and sincere wishes for a continuance and expansion of their progress and prosperity.'

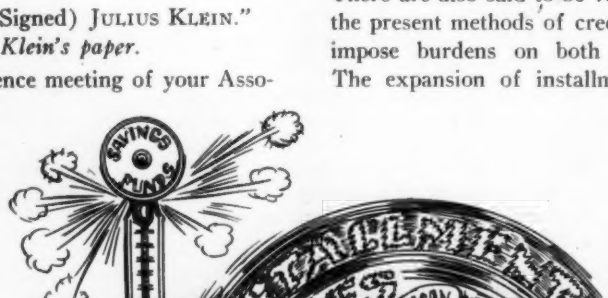
(Signed) JULIUS KLEIN."

I will now give you Dr. Klein's paper.

Just prior to the Providence meeting of your Association a year ago, a group of your officials stopped over in Washington to discuss with representatives of the Department of Commerce, the possibility of a Retail Credit Survey on a National scale. It was pointed out at that time that a large proportion of the retail business of the country was done on a credit basis; that there was no accurate statistics regarding the volume of such business, or its character, nothing about the average proportion of losses, the cost of credit operations, the distribution of risks and many other points. The credit structure which has been built up between the retailers and the consumers undoubtedly presents some of the greatest problems facing business today. The kinds of credit in use are not new, but some of their forms are new, and the amount of consumer purchasing on credit is said to have been increased greatly during these last eight or ten years.

It is held by many who are close to the situation that these credit operations are being conducted without sufficient knowledge of the underlying and ruling facts. The leading retailers know the facts about their individual operations, and the many credit bureaus throughout the country are doing excellent work in stabilizing credit conditions in their own communities. However, no systematic study has been made of the retail credit field in general, and in consequence, the conduct of this business lacks adequate direction, and conclusions as to its soundness are being based upon opinion rather than on facts.

There are two outstanding features of the retail credit situation which in themselves warrant a careful study of the field. There has been considerable uneasiness, not to say alarm, over the degree to which consumers have mortgaged their future income by installment purchases and other credit transactions. There are also said to be very heavy costs involved in the present methods of credit extensions; costs which impose burdens on both consumers and retailers. The expansion of installment sales, particularly on automobiles, has been so great that many leaders of thought have been alarmed. This alarm may or may not be justified, but the fact remains that for several years there has been pronounced uneasiness in certain quarters regarding installment sales. Many have felt that with any material slackening of business, the large body of installment contracts outstanding might become a wall of frozen



While installment sales have increased, saving funds have increased at the same time.

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The National Retail Credit Survey

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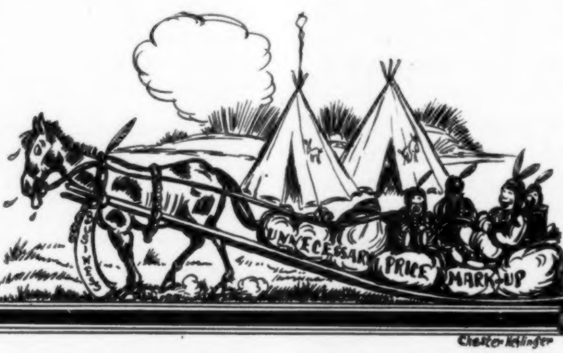
credits that would stop current consumer buying and precipitate a serious business depression. A well known business forecaster stated in 1926 that,

"A distinct recession in business and possibly a panic within two or three years would not be surprising—it will be the result of over-extension of the installment business, which today is eating into the vitals of business like a cancer."

During this past year, as a sequel to the Mississippi flood, the Ford shut-down, and some similar disturbances, we did have a slackening of business with a sufficient degree of unemployment to cause considerable comment. Yet no panic developed from the retail credit situation. Another prominent business forecaster has remarked that, "It is probable that one of the chief causes of the reaction of 1927 was the accumulation of installment goods, not fully paid for and therefore not really sold, in the hands of buyers." It is noteworthy that even this statement is not made with a ring of certainty, and indeed if the installment business did affect the business situation during the last year, the effect was not only not serious, but was actually inconspicuous.

In this connection, it should be noted that while installment sales have increased during this last decade the saving funds of the American people have increased at the same time. Installment buying has not meant the abandonment of thrift for spendthrift policies. The total savings deposits in our banks and the numbers of savings depositors have increased very materially during this period. So also has the business of the life insurance companies, and the building and loan associations.



Any unnecessary mark-up in prices is a drag on all classes of business.

The best estimates available (those of Dr. Seligman and Dr. Ayers) indicate that the total yearly installment sales for consumer's goods are about four to five billion dollars out of a total national retail turnover of some forty billions and a national income of nearly ninety billions of dollars.

These figures are so large and so general that it is difficult to draw any definite conclusions from them. Their relative size and the mildness of the effect of the installment business, if any, during such minor recessions of business as we have had, lead to the tentative conclusion that the extreme alarmist has painted this picture in too somber colors.

However, it is still true that we know almost nothing about the total amount of retail credit outstanding (including open credit as well as deferred payments) nor do we know anything in particular about the distribution of this credit burden among various income groups and in various parts of the country.

Credit running into the billions of dollars needs very careful oversight by the business men of the country. Adequate oversight is not possible without more thorough knowledge of the situation. Conditions might easily get out of hand in certain directions if developments were allowed to pass unanalyzed. With complete knowledge of the situation credit extension can be kept within safe and constructive limits.

It is said that a material portion of our prosperity of recent years is based upon our retail credit structure. It has been said that a carefully conducted survey of retail credit conditions and practices would give to business men facts which would enable them to regulate this phase of business with safety. It would seem that a careful survey of the facts should serve as prosperity insurance. Increase of prosperity calls for increase in efficiency and a lowering of costs in distribution. Our manufacturers and producers, including the farmers, have increased their efficiency and have lowered their prices. The costs of distribution have not been reduced correspondingly.

A material part of the costs of distribution come from the costs of extending credit to the consumers. Available data indicate that, with up-to-date methods of credit scrutiny, the actual losses from bad debts are not very heavy. However, it does appear that, when the costs of credit scrutiny, bookkeeping and collections are included, the total costs of extending retail credit are heavy. The mark-up on goods sold on extended credit is frequently very much greater than any normal interest charge on the outstanding payments. Yet the competition in the field is so keen that it appears certain that added costs to the consumers do not appear as added profits to the retailers. Apparently there are heavy costs involved in the extension of retail credit which are a real burden on the retail trade as well as on the consumers.

Any unnecessary mark-up in consumers' prices caused by charges to cover wasteful practices is a drag on all classes of business as well as a burden on the consumer. Those retailers whose costs are abnormally high undoubtedly suffer. It is just as true that un-

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What the Management Expects of the Credit Manager

By **SIDNEY R. BAER**
Stix, Baer & Fuller Company
Saint Louis, Mo.

WHENEVER I am called upon to make a speech to a group of specialists such as you are and, realizing that your technical knowledge of the subject on which I am expected to speak is far greater than mine, I wonder whether the subject of my address is fit for the occasion. It reminds me of an incident which I am told happened recently in one of our Federal Courts in St. Louis.

A witness had been summoned to appear before one of our august federal judges to give certain testimony which was of a rather intimate nature. After the witness had taken the usual oath and was seated in the witness chair, the judge asked him to give his testimony.

The witness said to the judge, "Your Honor, while I am very anxious to help all I can in this case, the testimony which I have is not fit for any decent person to hear. I, however, do not mind whispering it to you."

In my address today, I shall endeavor to refrain from entering upon a technical discussion of the functioning of the credit office, for the reason, as stated above, that I do not feel my technical knowledge warrants such a discussion of the subject. I shall endeavor to visualize to you the importance of the credit department in a large institution and the perspective which the management has towards the credit department as an important phase in the operation of the business as a whole.

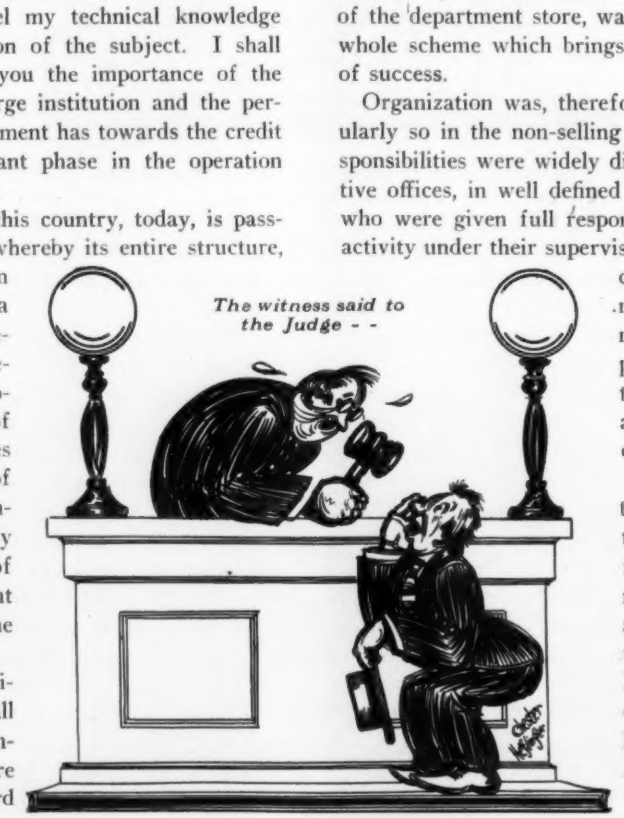
The retail business of this country, today, is passing through a transition whereby its entire structure, both from an organization standpoint and from a standpoint of policy, is being remade. It is fast becoming a science and a profession in every sense of the word and these changes are such as will make of the department store an institution which will dignify this claim. A new vision of management and different type of executive has come upon the scene.

Most of the great institutions of today were small stores a quarter of a century ago and, as such, were operated in the haphazard way typified by the small country store. The owners of these stores were in a great majority of instances the buyers, sellers and financiers; they were the alpha and omega of the store, upon whom everything depended. All initiative emanated from the office of the owner or manager, who dominated every activity. The words "ORGANIZATION" and "SYSTEM" were hardly known. What little system a store had was simply a gradual development in order to safeguard the natural leaks of expansion. Any great amount of system, however, was considered "red tape" and unnecessary expense. The function of any executive or employes not included in the activities of buying or selling was minimized in importance and the branch of the business known as the non-selling division was not considered as being able to be of any constructive benefit or help in the increasing of profits or the promotion of business.

Address delivered before the National Retail Credit Ass'n Convention, Kansas City, Mo., June 18-22.

Then the reaction began to come! It was evident to the managements of real institutions that the fundamental structure of the business was not right and that to buy and sell alone, the basis for the existence of the department store, was only a small part of the whole scheme which brings about the highest degree of success.

Organization was, therefore, intensified and particularly so in the non-selling division of the store; responsibilities were widely distributed from the executive offices, in well defined channels, upon specialists who were given full responsibility for the particular activity under their supervision. The organization became a great scientific mechanism whereby the manifold problems, which presented themselves continually in the diversified activities of the store, could be analyzed.



The witness said to the Judge - -

In my estimation, this transformation in the structure of the organization affected the credit department to as great an extent as any other department in the store, and justly so. For in the past the credit department, I might say, has simply been regarded as a necessary evil wherein

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What the Management Expects of the Credit Manager

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that great portion of the public who did not want to pay cash for their purchases could be extended the courtesy of *credit,* and wherein this credit could be given with a minimum loss to the store. The credit manager endeavored to meet all the customers who came into his department, so that he could size each one up and grant them this favor that they were asking of the store. Subsequently then, it was his function to see to it that this customer paid his or her bill as *promptly* as possible. This, speaking generally, comprised the entire field of activity of the credit manager of the store.

Just as the department store has been going through a transition, business in general in this great country has been going through a transition. Where formerly credit was begrudgingly and sparingly granted, today, under proper conditions and with reasonable safeguards, it has become one of the fundamental methods of developing business and promoting growth. I believe it is safe to say that this changed viewpoint, insofar as the extension of credit is concerned, has done more in the development of this great country than anything else, for it is only through the extension of credit that it has been possible for us to develop our tremendous resources. Banks, as stated above, with reasonable safeguards, became ultra-liberal in the extension of credit to fundamentally sound undertakings; real estate investment houses extended credit to basically sound projects, which caused a tremendous impetus in building from one end of the United States to the other.

The department store, the retailer, realized as well that under the intelligent direction of a highly competent credit manager—who I think can be called the *banker* of the institution—that credit could be used to great advantage in developing good will on the part of a great percentage of its patronage and thereby an important part in the promotion of the business and in building of a permanent growth in the future.

The former conception of the credit manager's responsibility, simply to grant credit when it was asked, and to collect outstanding accounts as quickly as possible, became only a small part of his executive functions.

As is the case always when an executive takes on wider responsibilities, the credit manager began to realize the necessity of distributing routine responsibility, and if he did not, it simply meant that he became inundated in routine detail and, therefore, was unable to analyze the fruitful possibilities to the store by reason of the intelligent usage of credit.

I shall not go into the details here today as to how he distributed these responsibilities upon the divisional credit managers under his direction and the intensified organization subsequently developed in the credit office. I shall not discuss how research departments developed which enabled the credit departments to not only maintain activity of the accounts on the books and increase their fertility, but to develop new fields of business for the store through the extension of credit, which is a most interesting phase of the intensifying of the credit department organization; nor how improved atmosphere in the physical aspect of the credit department from the standpoint of layout and appearance served as a factor. These things, I would say, come within the category of a technical discussion of the functioning of the credit department and I am afraid that if I enter this field, my talk would become so drawn out that I would be thrown out before I finished.

At any rate, the credit manager, by reason of this distribution of responsibility, became the banker of the institution and as such, not only continued to shoulder the responsibility of holding down credit losses and extending whatever credit was asked for, but at the same time assumed the responsibility of encouraging patrons of the store to *seek* credit, thereby becoming more intimately a part of the store's patronage than formerly. He became an important adjunct of the sales promotional activity of the store, playing a vital part in the development of business and good will. And, I would say here, that if there is a credit manager who is not functioning with this broader conception of his responsibilities, then he is only fulfilling a small part of what is expected of him by progressive and forward-looking managements.

The credit manager, I feel, must be relied upon more fully for the efficient direction of this phase of the business than almost any other executive in the entire organization. It is his duty not only to see that credit losses are maintained at a reasonably low percentage of the credit business, but at the same time to guard against the possibility that in holding down credit losses he is not too conservative, thereby driving good business away from the institution with which he is connected.

In this particular the credit office is analogous to a bank. The bank that extends credit unintelligently and beyond the point of reasonable conservatism soon piles upon its books frozen assets which cannot be liquidated and which cannot be turned. A bank in this condition is not sound and its financial structure is such that does not warrant the public to deposit their earnings therein. On the other hand, a bank that is the other extreme and refuses to extend credit where the moral and financial risks are favorable, will dry up and will be surpassed by its competitor banks.

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What the Management Expects of the Credit Manager

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Just where the line of demarcation, which divides unreasonable conservatism and unsound liberality, exists, is not always an easy thing to determine and the management of the large institution must to a very great degree rely upon the integrity and judgment of their credit manager in this respect.

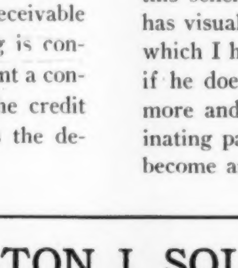
The extent to which the credit office is serving as a promotional asset in the development of business can, to some extent, be determined by the relationship of the percentage of total charge business to the percentage of cash business, although there are many things which might influence the variance of this ratio, such as an aggressive policy in the development of installment business in the home furnishings and kindred merchandise. I mention this to further emphasize the statement I just made above: that is, that the management must to a great extent rely upon and place themselves in the hands of the judgment of their credit manager.

How efficiently the credit office is functioning, insofar as the intelligent granting of credit can, to a greater extent, be measured by the analysis at periodical audits of the outstanding accounts receivable insofar as age and time of their outstanding is concerned. Such a report gives to the management a conception of the condition of accounts, but the credit manager alone through his organization has the detailed picture of the accounts receivable.

To sum up, therefore, I would like to leave you with my conviction that with the broader responsibilities, such as I have outlined herein, which offer a wide field for constructive analysis and scientific application, whereby infinite results are attainable, the credit manager in addition to being a diplomat and a banker possessed with a sound knowledge of credits and an understanding of human nature, must be an organizer. He must develop around him an organization where responsibilities are clearly and well distributed, so that he may be relieved of too much routine detail and thereby be in a position to do the constructive thinking of a real executive.

While great progress in retailing has been made in the last twenty-five years, I see clearly the possibility of even a much greater development in the next decade. Today is a day of specialization and scientific endeavor in medicine, in law and in all other professions: and, in the department store as well specialization is accomplishing, through greater intensive effort, a closer analysis of its manifold problems, thereby increasing efficiency and accomplishment. No man in the business has more opportunity to develop under this scheme of things than the credit manager, if he has visualized his responsibilities along the broad lines which I have tried to convey to you in my talk. And, if he does, there is no question in my mind but that more and more the credit manager will play a dominating part in the development of his institution and become an outstanding figure in its success.

MILTON J. SOLON



Mr. Milton J. Solon, Credit Manager of The Dayton Company, Minneapolis, Minnesota, has long been an outstanding figure in our Association. For five years a member of our Board of Directors, and last year Second Vice-President. He was advanced to the office of First Vice-President by the unanimous vote of the Kansas City Convention, and all those present were jubilant over the possibility of Mr. Solon becoming President next year.

Therefore it was a severe shock to learn that at the meeting of the Board of Directors following the Convention, Mr. Solon presented his resignation as an officer. This action was for purely business reasons and the result of conferring with his business associates in Minneapolis.

Mr. Solon still has his heart and soul in the work of our Association and himself regrets the pressure of business prevents his devoting the necessary time to the official duties of Vice-President.

The Board of Directors reluctantly accepted his resignation, realizing we were losing from our official family one of the highest types of Credit Manager. Clean cut, aggressive, intelligent, and the possessor of a personality which made him loved and respected by all who know him.

Dentists and Their Credits

By **DR. R. J. RINEHART, D.D.S., F.A.C.D.**
Executive Dean, Lincoln and Lee University
Kansas City, Missouri

Presented at the Retail Credit Men's Convention in Kansas City, June 18-22.

WHEN Mr. Lovett asked me if I would appear on this program and present a paper on the topic, "Dentists and Their Credits," I asked him if he wanted me to tell some of our professional secrets, and his reply was that the sooner these secrets regarding the dentist and his credits were revealed, and the error corrected, the better off all of the people would be, because all are interested in dentistry.

As I undertook the compiling of this paper, and, at times just couldn't find anything worth while to say, I found myself very much in the position of the farmer who was milking his cow on the side of a mountain. Many difficulties surrounded him, such as the slope and roughness of the ground and the generous supply of flies and gnats. The old cow kept swishing her tail, knocking off his hat, brushing him in the face and bothering him, until in a fit of anger, he grabbed the cow's tail, wrapped it around his neck and put a knot in the long hairs at the end. This worked fine for just a little while, until the cow could no longer bear the troublesome gnats and flies. When she found she could not use her tail to defend herself, she started to run down the side of the mountain, dragging the farmer after her; and in the story, it is recorded that the farmer said that by the time he was half way down the mountain he decided that he had made a grave mistake.

I asked Mr. Lovett the name of this association and he informed me that it was "The National Association of Retail Credit Men"; he then proceeded to tell me that there would be credit men and credit women, bureau managers and secretaries present; and I wondered, in this day of feminine political ambitions why the name included only the masculine. Perhaps in this—as in almost every walk of life—the men are hanging on just as long as possible. I am convinced, however, from some observations that it takes a clever man to deceive a woman and that women know their own kind very well—hence the success of credit women. We also know the great persistence of many women and in this connection I will tell you of a state official who had just been inaugurated into office and was making a tour of inspection of the various state institutions. Among these was the State Insane Asylum. As he was being shown through, they came to a man who was standing by a window, looking out at the great expanse outside and saying softly to himself over and over, "Lucy, Lucy." The official asked what seemed to have been the cause of this man's dementia, and was told the story of his courtship with a woman by the name of Lucy who had jilted him on their wedding day. Then they proceeded on their tour of investigation and at the other end of the building they came upon another man who was walking back and forth in a small room at a terrible pace, keeping it up constantly and every now and then screaming out at the top of his voice, "Lucy, Lucy." "And why is it that this man is also using the name of Lucy in his unreasonable mutterings?" asked the official. "Oh," explained the guide, "that is the man who actually got Lucy."

I have been informed that a credit man, making a speech to a group of 250 merchants, asked them how

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Dentists and Their Credits

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many desired open accounts with dentists, and that only seven indicated that such accounts were welcome. If this question had been, "How many of you desire the services of a dentist?" I am quite sure that there would have been 250 hands raised, regardless of the fact that they faced a more or less painful ordeal; for every man, woman and child needs dentistry several times during every year of their lives if they are to be protected from many of the insidious diseases that infest the entire human system and which are directly attributed to the lack of proper care and treatment of the mouth. A single tooth, although it may be giving no trouble whatsoever to the individual and may seem to be entirely normal so far as the patient is concerned, may have an active abscess upon the end of the root, doing its damage day and night. There is no service to humanity that requires more skill or a better developed mind.

"I'm just laughing about the way I fooled your doctors."

Perhaps it would be interesting for some of you to know that a young man cannot enter the Dental College unless he has a High School education and has had one year of college work. After this he must spend four years of his life in preparation. When he has graduated from the college and has his diploma, he cannot yet practice until the State Dental Board has examined him and found him to be proficient. I now ask you the question, "How important is the dentist to the community and what do you owe the dentist?" As credit men and women, you at least owe him your co-operation.

In considering the question, "Why does the Credit Bureau regard accounts with dentists as unprofitable?" I am told that it is not because they do not collect from dentists—eventually—because there are fewer deadbeats in the medical and dental profession than in any other business or trade, for records show that there is an eventual loss of only one-fourth of one per cent.

For a better understanding of his apparent delinquency, it is necessary to consider the source from which the dentist derives his income. Let us take some specific examples of the experience of the average dentist.

A man and his wife came into the office of a dentist in Kansas City and received and paid for dental services for the lady to the amount of $15. This prompt payment led the dentist to consider the family as good pay when some time later, the man returned and contracted for $250 worth of work, nothing was said about terms. This bill was never paid and upon investigation, four years later, it was found that there were seventeen judgments against him. Had this account been paid, the dentist's creditors would have participated in his income and if the work had not been done, the materials for which the dentist owed, as well as other expenses, would have been saved.

Recently I heard of the experience of a well-known diagnostician in Kansas City. He was visited by a very poorly dressed man who requested a diagnosis of his case. The physician, being a generous sort of fellow, and interested in all humanity, took the patient in and called another physician for consultation. It was then decided that an operation was necessary. The man did not pass as a pauper, but merely as a poor man, and therefore a very moderate fee was charged. Five days later, in one of our best hospitals, the man burst out laughing and when asked the reason by his nurse, he said: "I'm just laughing about the way I fooled your doctors. My doctor told me that this operation would cost me $5,000—I am getting it done for $400!" It was later learned that this man was worth four million dollars. A membership in the Credit Association would have been worth very much to these physicians.

Hundreds of such stories could be told, all showing just why it is that the accounts of many physicians and dentists are sometimes considered rather unprofitable. This, of course, does not refer to the upper third of the profession. The services of physicians and dentists are necessary only when people are in dire need and seldom are they asked to pay in advance, what their salary is, where their checking accounts are, nor their credit standing looked up. The physician or dentist merely steps where he is needed, renders his services willingly and proficiently and *trusts* the patient to pay promptly. Intentions are good; but when the emergency is over, the physician or dentist is forgotten and so continues to receive notices of past due accounts and to be rated as "slow pay."

As an executive of a School of Dentistry, I am prone to feel that the business side of the dentist's

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Installment Accounts

By J. P. FRIEDMAN, C. P. A.
Touche, Niven & Company

Address delivered before New York State Society of Certified Public Accountants, December, 1927

THERE are three ways in which profits from installment sales may be handled:

1. The entire profit may be included in income as soon as the sales are made, subject to the provisions of adequate reserves.

2. The entire profit may be deferred and included in income in proportion to the initial payment and subsequent collections.

3. None of the profit may be included in income until the entire sales price has been collected, after which the remaining collections may be credited to income.

These methods will be considered in the order in which they are enumerated.

Including the entire amount of profit in income immediately:

Under the first method, the entire profit from an installment sale is included in income as soon as the sale is made in the same manner as for cash and charge sales. As an illustration, if goods costing $100,000 are sold for $160,000 the entire $60,000 is included in income immediately. A great deal may be said for this method, particularly if the merchandise sold is fairly well made, if it is sold to customers with some credit standing and if the accounts are of a duration of a year or less. The difficulty with this method in the past, however, has been that while profits have been included in income in full, the only reserve that has been set up has usually been one for bad debts, as in the case of other classes of sales, and the additional reserves which are necessary for installment sales have not been provided for. In other words, the attempt has been made to handle installment accounts on the same basis as regular charge accounts and this has resulted in considerable overstatements in many instances. These additional reserves are a vital factor in determining the profits and should not be overlooked.

As a matter of fact, in dealing with installment accounts, the reserve for bad debts may practically be unnecessary since, if the customer does not pay, the goods can usually be repossessed. In some instances, however, it may not be possible to repossess merchandise because the customers cannot be located or because the balances may be so small that the expense of repossessing would not be warranted. Provision for such doubtful accounts will of course be comparatively small and rather readily ascertainable.

If the entire profit is included in income immediately a reserve should be provided for the merchandise loss on goods to be returned subsequent to the end of the fiscal period. It is manifestly unfair to include the entire profits in income if it is known that some goods will be returned in the subsequent period and that it will be necessary to sell them again.

The objection has been raised that a reserve of this character is not necessary because, if the customers do not pay, the goods can be repossessed and sold for as much, or perhaps more, than the unpaid balance and that, therefore, there is no loss. Even if the statement were borne out by facts, which in many instances, unfortunately, it is not, it can be seen how fallacious this argument is by considering a simple illustration. Let it be assumed that a piano costing $300 is sold for $500 and that the customer has made payments of $100 on account to the end of the year, leaving an unpaid balance of $400. Immediately before the end of the year, the customer for some reason or other, refuses to make further payments and the piano is therefore repossessed and the deposit forfeited. If the piano were then included in the inventory, obviously it would be priced at less than $300, because only new pianos are included at that figure. However, if the piano had still been in the hands of the customer at the end of the year and had been returned early in the new year the company would have been in the position of including in its assets the piano at $400 which, if it had come back several days earlier, would have been taken in at no more than $300. To cover the prospective loss in this instance it would be

Including the entire amount of profit in income immediately.

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Installment Accounts

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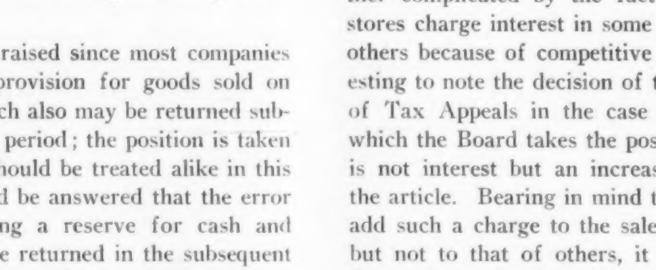
necessary to set up a reserve for at least $100 representing the difference between the $400 customer's balance and the $300 maximum at which it could be included in the inventory. The actual reserve would probably be considerably higher than $100, as an old piano should not be included in the inventory at the same price as a new one. It is clear, then, that if it is known that goods will come back during the subsequent period a reserve should be provided. It is true that there may not be an ultimate loss in the sale of the merchandise, but the reserve shifts the profit to the period in which the goods are ultimately sold, where it belongs, whereas if such a reserve is not provided the period of initial sale is credited with the profit even though the ultimate sale is made in a subsequent one.

A further objection is raised to a reserve of this character in that it is difficult to estimate how much merchandise will be returned in a subsequent period. This can hardly be called a valid objection. It is the duty of the accountant to estimate as closely as possible in the same manner as in a great many other instances.

A further objection is raised since most companies do not make a similar provision for goods sold on cash or charge terms which also may be returned subsequent to the end of the period; the position is taken that all classes of sales should be treated alike in this respect. To this it should be answered that the error is rather in not providing a reserve for cash and charge sales which will be returned in the subsequent period when the amount involved is insufficient to warrant it. The returns from cash and charge sales in most instances, however, are almost a negligible factor, while in the case of installment sales they will usually be found to be quite material.

Another reserve that is not usually provided under this method is one for the cost of bookkeeping and collection. Installment accounts necessitate considerable work in the bookkeeping and collection departments. The actual cost can be found readily by totalling the salaries paid and adding thereto the expenditures for rent and other items applicable to these departments. The total cost, if divided by the collections for the period will show the percentage cost of collections. A provision can then be made applying this percentage to the outstanding balances at the end of the year. Unless this is done the company will be in the position of showing the installment accounts on the balance sheet at 100 cents to the dollar which cannot be realized due to the expenses that it will be necessary to incur before final collection is made. Again, in the case of charge accounts the reserve would ordinarily be negligible and is therefore not provided, but for installment accounts it will usually be found considerable because of the many payments involved.

In connection with installment sales it is quite usual for the customer to pay an additional sum termed interest, carrying charge, service charge or by a similar designation. If such a charge is made, should it be included in earnings in its entirety immediately upon making the sale, should it be included in earnings pro rata in accordance with collections, or should some other method be adopted? The situation is further complicated by the fact that some department stores charge interest in some departments and not in others because of competitive conditions. It is interesting to note the decision of the United States Board of Tax Appeals in the case of Anderson & Co. in which the Board takes the position that such a charge is not interest but an increase in the sales price of the article. Bearing in mind the fact that some stores add such a charge to the sales price of some articles but not to that of others, it seems obvious that for these other sales the service charge must be included in the sales price. Any view other than that of the Board—that a service charge is merely an addition to the sales price—would lead to endless complications. It would be necessary to handle separately instances in which no charge is made, those in which it is merely nominal, those in which it approximates a fair rate of interest and, again, those in which it is in excess of such a rate. Accepting the decision of the Board, however, it would seem to follow that the service charge should be included in income in its entirety immediately upon the consummation of the sale



Deferring the profit and including it in income only in proportion to collections.

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under the first method. Still, to include the entire service charge in income immediately would leave the company in a position of having customers' accounts in its balance sheet which are not payable on the average for many months, sometimes for several years, valued at 100 cents to the dollar whereas proper accounting would dictate that such accounts be not included at values in excess of their present worth. This leads to the conclusion that there should be deducted from the gross balances an amount equivalent to a normal rate of interest, which will reduce the accounts to their present worth. If the accounts are payable over the period of more than one year, the compound interest method might well be used for this purpose.

To summarize: under the first method of accounting for profit on installment sales—that of including profits in income immediately upon making a sale—it is necessary to provide four classes of reserves as follows:

1. Reserve for doubtful accounts,
2. Reserve for merchandise loss on returns,
3. Reserve for collections and bookkeeping expenses,
4. Reserve for discount to reduce accounts to their present worth.

Deferring the profit and including in it income only in proportion to collections:

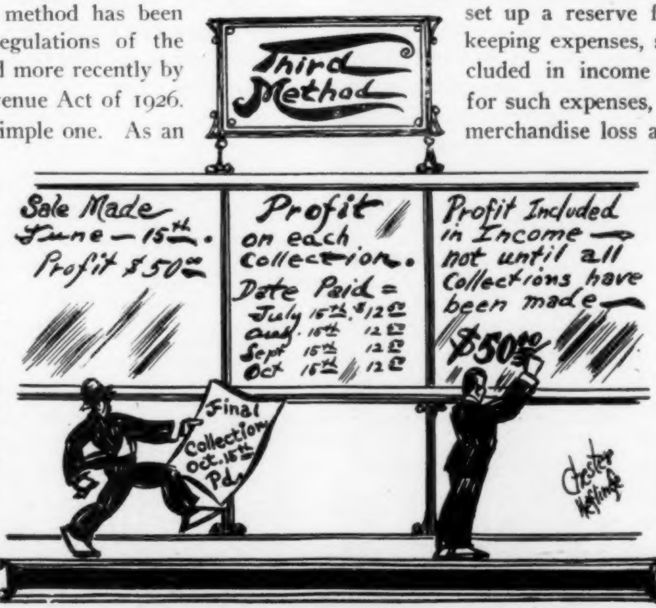
A great deal of discussion has taken place in the past regarding the method of deferring the profit and including it in income only in proportion to collections, particularly from the point of view of federal taxes on income. This method has been sanctioned under the Regulations of the Treasury Department and more recently by the provisions of the Revenue Act of 1926. The method is rather a simple one. As an illustration, if goods costing $100,000 are sold for $160,000, the resultant gross profit is 37½ per cent of sales price. At the time of sale the only amount included in income is 37½ per cent of the initial deposit and thereafter the same percentage of collections. If at the close of the period say $120,000 remains uncollected, the deferred profit is set up at 37½ per cent of that amount, or $45,000.

Yet this obviously simple method raises a number of questions. If a service charge is made, should it be included in earnings at the time the same is made? It seems quite clear, since under this method the profit is included in earnings only pro rata in accordance with collections, that the carrying charge should similarly be included on a pro rata basis. Whether the carrying charge is separately apportioned or added to the profit and it thereby increases the profit apportioned does not matter as, in any event, all elements of profit are deferred and included in income only in proportion to collections.

A reserve should also be provided for doubtful accounts, but it need not be large as, again, it is only for the few instances in which customers disappear and the goods cannot be located or the balances may be so small that the cost of repossession would not be warranted. Experience will be found to have demonstrated that losses of this character have usually been few.

It will be necessary also for many classes of merchandise to provide a reserve for the amount of merchandise loss on goods to be returned subsequent to the end of the fiscal period. The amount of such a reserve obviously will be smaller than under the first method by the amount of the deferred profit. The illustration for the necessity of such a reserve has been given under the first method and applies to the second as well.

In addition to deferring the profit under the second method, the reserves differ from those provided under the first method in that it is not necessary to set up a reserve for collection and bookkeeping expenses, since the profit to be included in income in the future provides for such expenses, and that the reserve for merchandise loss applicable to returns will be lower by the amount of the profit deferred.



Including none of profit in income until entire purchase price has been collected.

Including none of profit in income until entire purchase price has been collected:

The last method is the most conservative of the three, but it is seldom used. Under this plan the entire profit is deferred and none of it is included in income until the outstanding accounts are reduced to the balance in the deferred

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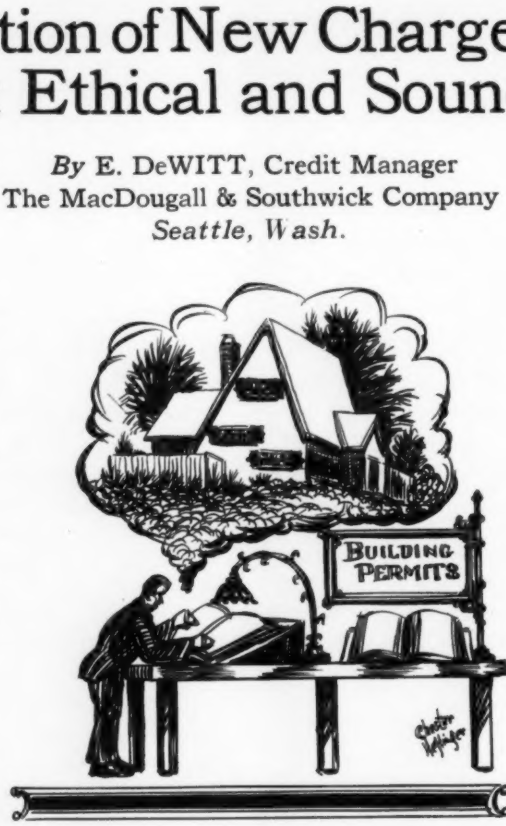
The Solicitation of New Charge Accounts; Is It Ethical and Sound Business?

By E. DeWITT, Credit Manager
The MacDougall & Southwick Company
Seattle, Wash.

IT IS imperative that an institution entering the credit field depend largely upon its new charge customers for its success. Every means available should be used to see that these accounts are obtained. A business that has been established for a number of years and has secured an average number of accounts relies to some extent on the new customers that their old, satisfied patrons bring to it.



Building permit records are available

There appeared an article recently in the Pacific Northwest Merchant which was edited by a person in charge of the Promotion Department of a Northwest clothing establishment, which stated that only 15% of their efforts were devoted to new charge business and the 85% was devoted to increasing the charge business of their active and inactive accounts. It would seem that a new credit institution just starting in business would apply most of its efforts to obtaining new charge customers.

The old established houses spend considerable time and money in securing new charge accounts, owing to the fact that a certain percentage of the patrons either move away or decide to put their household on a cash basis, or for various other reasons close out a percentage of the accounts. However, a satisfied customer who has dealt with the store for a long period of time is usually one of the best sources for new charge accounts that can be found.

There is a time in practically everyone's life when it is not always convenient to take care of their accounts promptly as they become due for various reasons, which include unemployment, sickness, etc. Dealing with these people in a fair way brings them closer to the store in a friendly attitude, which makes them feel really obligated to a certain extent, and they would be only too glad to recommend such an institution to their friends to do business with.

Ask yourself this question, "How many of your applicants for credit tell you during the interview that they can refer you to a friend of theirs who has a charge account at your store?" And after giving this some careful thought, you can readily see that by serving your established customers intelligently they produce new charge accounts for you.

The quality of merchandise and the service that a store renders are two factors in the retail business which must be considered. If both of these are up to standard, that is sufficient in itself to induce any charge customer to recommend the store in which they do their shopping, and I believe that catering to our old established customers in the various ways just mentioned are very profitable advertising mediums for new charge accounts in addition to the usual methods of solicitation.

In most every locality the building permit records are available, which give names and addresses of people who are building new homes. This should be a very profitable source for new accounts for the furniture business as well as the ready-to-wear shops and department stores.

Then there are numerous lists such as the stenographic force, bookkeepers, clerks, etc., made up of the fairer sex, which are produced by the directory service. This same service also lists men as department managers, men in similar lines of business which are of particular benefit to the specialty shops, men's furnishing establishments and department stores.

I know of one retail firm in a general line that used a company car and a man in uniform that identified himself with the store he was working for, who would take a certain district in the city which should produce a profitable retail business, for the purpose of checking up store service from different departments, particularly the delivery department. In every case, however, the addresses that were given him were checked before the representative left the store to see that the person called upon did not have a charge account. A certain percentage of these found the lady

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The Solicitation of New Charge Accounts

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a cash customer and in the course of conversation, which was held in a very diplomatic way, drifted to a point where the lady of the house was asked if she would not like to avail herself of the convenience of a charge account with the store, giving, of course, definite reasons which were good selling points. The result of a campaign of this kind was very gratifying, as about 10% of the contacts developed into new charge accounts.

The daily and Sunday newspapers carry society items, marriages, newcomers, and also special mention of promotions in business. These are all good prospects for solicitation purposes.

Your daily C. O. D. records can be checked with your active and inactive accounts and a list made which can be followed up to good advantage. There are concerns who publish special lists of people buying different items on conditional sales contract, which give names and addresses. Those may be solicited who live in a section of the community that would produce a profitable charge business on a thirty day basis.

Every store cashes a great many checks daily for people who do not have accounts. It is well to have a definite system throughout the store with floor men and department managers who O. K. checks, to signify on the back of the check if the person cashing it has or has not an account. This is also done when customers are making cash purchases in the different departments. The following day, before the deposit is made up for the bank, take the checks and list those with the names and addresses that do not carry accounts to be solicited. This is a simple matter, as every check O. K.'d should have an address and telephone number.

Let the sales people of your organization bring in prospective sales customers. When a sale is made it is necessary for the sales person to ask the customer if she wishes to pay for the article or have it charged. In such cases where there are cash sales, it affords an opportunity to suggest a charge account. Some stores pay their sales people for every account that they are instrumental in opening, which is an inducement for them to approach every cash customer. This is done in the regular way by bringing the customer to the credit office to fill out an application which is cleared through the bureau before the account is finally opened.

It might be profitable to have a "New Account" contest among the sales people—pay for each account they open and give a prize to the person obtaining the most number of accounts. This idea proves very profitable to the sales people and, of course, brings lots of new customers to the credit office to fill out applications.

It has been known that two retail establishments handling merchandise of an entirely different character have exchanged their lists of charge customers which resulted in a very profitable list of new accounts for each other. This idea, however, is very rare and could only be done in the larger cities among specialty shops. For instance, automobile dealers could exchange with jewelry stores and electrical appliance shops with ready-to-wear specialty shops.

The income tax report that is issued annually is a very good source for new accounts, owing to the fact that it calls to your attention the amount of tax an individual pays and those paying a certain amount can be solicited.

In the fall before school opens, a list of teachers for each school in a community is given in the daily newspaper, which is another medium for charge business.

One time I registered at a hotel in Portland and the next morning there was a letter from one of the leading stores of the city in my box, which invited me to call at their store and open an account to use for a convenience while I was in the city. This invitation did not result in my opening a charge account. However, it was necessary for me to purchase some haberdashery and they received my cash business.

It is well to keep a card index of all prospects as suggested above, and in case they do not respond to your first method of solicitation, to appeal to them in a reasonable length of time as a second request and so on until you have used every available means of securing their accounts.

It appears the most ethical way to solicit the average prospect would be to either write or telephone your party, inviting them to open a charge

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There was a letter from one of the leading stores

13. R. J. Puckett, Credit Manager
Allen W. Hinkel Co., Wichita, Kans.

14. J. G. Ross, Credit Manager
Rochester Gas & Elec. Co., Rochester, N. Y.

15. R. E. Westberg, Treasurer
Westberg & Childs, Inc., Seattle, Wash.

16. J. E. Ziegelmeyer, Credit Manager
Huey & Philip Hdwe. Co., Dallas, Texas.

Committees fo Ye

EXECUT COMMI

Chairman	J. R. Hewitt	The Hub
	J. H. Edgerton	James M y & Co
	S. H. Talkes	Associat il Cred
	D. J. Woodlock	National Credit
	L. L. Meyer	Foley Br
	F. E. Parker	Merchan dit Bure
	A. D. McMullen	Oklahom Retaile

SERVICE DEPA ENT C

Chairman	A. D. McMullen	Retailers iation
	G. C. Morrison	Merchan it & A
	R. S. Martin	Retail C ssociati
	A. T. Hupp	Associat ilers
	W. V. Trammell	Merchan lit Asso
	J. R. Hewitt	The Hub
	G. H. Hulse	National Credit

FINANC MMIT

Chairman	S. E. Blandford	Charles ey Bldg
	G. C. Driver	The May pany
	J. W. Mehling	Retail M ts Cred

PAY PROM COM

Chairman	M. J. Solon	The Day mpany

CREDIT DEPARTMEN THOD

Chairman	E. B. Schick	Crowley Comp

SPECIAL EDU ON CO

Chairman	J. H. Edgerton	James M y & Co

9. L. L. Meyer, Credit Manager
Foley Bros., Houston, Texas.

10. Chas. Martin, Credit Manager
Charles E. Lynch, Springfield, Mass.

11. A. D. McMullen, Secretary-Manager
Oklahoma City Ret. Assn., Oklahoma City.

12. F. E. Parker, Vice-Pres. and Gen. Mgr.
Merchants Cr. Bureau, Inc., Detroit, Mich.

DIREC 1928-1

1. O. O. Berry, Credit Manager
J. S. Hall's Sons, Knoxville, Tenn.
2. W. B. Brinkman, Credit Manager
Geo. A. Gray Co., Duluth, Minn.
3. W. R. Bryan, Credit Manager
John C. Lewis Co., Louisville, Ky.
4. W. F. Devere, Secretary-Treasurer
Laramie Co. Cr. Exch., Cheyenne, Wyo.

fo Year 1928-1929

CUT OMMITTEE

Hub	Baltimore, Md.
es M y & Co.	New York City, N. Y.
ociate il Credit Men	Washington, D. C.
ional Credit Association	St. Louis, Mo.
ey Br	Houston, Texas
rchant dit Bureau, Inc.	Detroit, Mich.
ahom Retailers Assn.	Oklahoma City, Okla.

DEPA ENT COMMITTEE

ailers iation	Oklahoma City, Okla.
rchant dit & Adjustment Co.	Toledo, Ohio
ail Cr ssociation	San Francisco, Calif.
ociate ilers	Omaha, Nebr.
rchant dit Association	Birmingham, Ala.
e Hub	Baltimore, Md.
tional Credit Association	St. Louis, Mo.

NANC MMITTEE

arles ey Bldg.	Boston, Mass.
e May pany	Cleveland, Ohio
ail M ts Credit Bureau	Baltimore, Md.

PROM COMMITTEE

e Day mpany	Minneapolis, Minn.

MEN HODS AND STATISTICS

owley Company	Detroit, Mich.

EDU N COMMITTEE

nes M y & Company	New York City, N. Y.

IRECT 1928-1929

5. E. J. Dollard, Secretary
O'Connor Moffatt Co., San Francisco, Calif.
6. H. A. Gibans, Credit Manager
The Boston Store, Milwaukee, Wis.
7. W. H. Gray, Secretary
Cleveland Ret. Cr. Men's Co., Cleveland, O
8. A. P. Lovett, Credit Manager
Hettinger Bros. Mfg. Co., Kansas City, Mo.

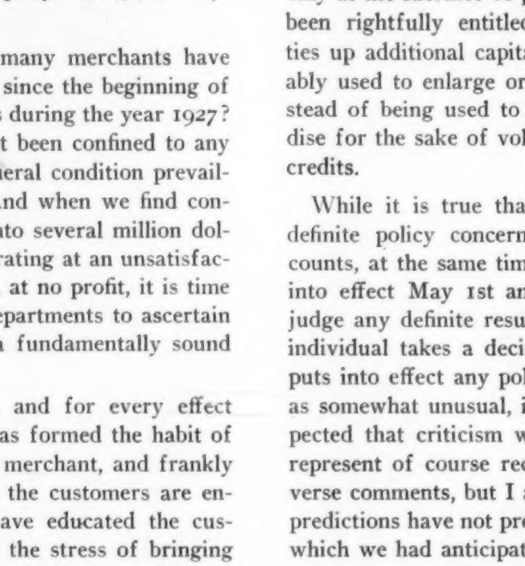
Should Interest be Charged on Past Due Accounts?

By **THOMAS McCORMICK**, Credit Manager
Culbertson's Department Store, *Spokane, Wash.*

IN ORDER that there may be no misunderstanding on this point, I wish it distinctly understood that I am not offering the charging of interest on past due accounts as a solution to the ever present problem of past due accounts; but rather as an effort to place an item of expense where it properly belongs, namely, on the customer's account.

Profitless prosperity. How many merchants have had this brought home to them since the beginning of the year as it applied to business during the year 1927? This profitless condition has not been confined to any one locality, but has been a general condition prevailing throughout the country. And when we find concerns with a volume running into several million dollars reporting that they are operating at an unsatisfactory profit, or as in some cases, at no profit, it is time that we looked into our own departments to ascertain whether we are operating on a fundamentally sound financial basis.

Things do not just happen, and for every effect there is a cause. The public has formed the habit of paying other bills ahead of the merchant, and frankly speaking, I do not believe that the customers are entirely to blame. Merchants have educated the customer to buy on credit, and in the stress of bringing up large volume they have not insisted on the customers taking care of their obligations as promptly as they should. In the matter of volume it has been a case of day beat day, tomorrow bigger than today, next month bigger than this month and next year bigger than this year, regardless of whether the merchants were making any money on this increasing volume. The merchant has been so fearful of hurting their customer's feelings or afraid of him transferring his business to their competitor that he has hesitated to insist on his customers taking care of their obligations in a prompt manner. It is only natural that merchants should be aggressive in their desire for more volume, but surely no merchant, however aggressive, desires an increased volume at the expense of his collection turnover.



Things do not Just Happen—

The additional volume which the average merchant has been gaining the last few years has not been a profitable one, due to the fact that it has been gained only at the sacrifice of profits to which he should have been rightfully entitled to. In addition to this, it ties up additional capital which could be more profitably used to enlarge or extend profitable business instead of being used to promote the sale of merchandise for the sake of volume to be tied up in long time credits.

While it is true that Culbertsons have adopted a definite policy concerning interest on past due accounts, at the same time this policy has just been put into effect May 1st and as yet it is rather early to judge any definite results. When any corporation or individual takes a decided stand on any question, or puts into effect any policy which might be considered as somewhat unusual, it is only natural and to be expected that criticism will follow. The firm which I represent of course received their share of these adverse comments, but I am very happy to tell you these predictions have not proven out. The adverse reaction which we had anticipated from our customers has become very conspicuous by its absence. In fact some of the comments which we have had have been very much in favor of our stand rather than complaining against it.

Our reason for adopting this interest charge is due to the fact that, like many other merchants, we endeavor to hold our collections to a certain fixed established percentage of our charge accounts, but without the desired results. Of course, there is the remedy of shutting off their credit, but this might not always be considered advisable, and too, the fact that some of the customers have traded at the store many years, and while slow, are considered good. Therefore, if these customers referred to do not

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Should Interest be Charged on Past Due Accounts?

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pay promptly it is only equitable that they should pay interest charges the same as the merchant who may have to borrow from the bank to carry these delinquent accounts.

A prominent credit man in a recent issue of Woman's Wear had an article in which he opposed the charging of interest on past due accounts. Advancing the argument that any retailer insisting on an interest charge would justify that account in being slow and would also put the retailer in the banking business. Frankly, that statement does not mean anything. Credit carried beyond the regular terms of payment is an accommodation to the customer which the merchant must pay for, and which in turn should be paid by the customer who is being given the accommodation. It does not make any difference whether it is a bank, a department store or a hardware store, they are in business with one objective, and that is, net profit at the end of the year. The bank loans money and the stores sell merchandise on which they expect a reasonable profit.

The average store in arriving at a mark up to be placed on the merchandise does so anticipating a customer to liquidate his or her account within the thirty day basis. And if these accounts are allowed to run indefinitely the margin of profit is reduced, and to offset this the stores should protect themselves by an interest charge.

The merchant borrows money from the bank and pays interest on it. The customer borrows money from the merchant when he does not pay his bill when it is due and thereby deprives the merchant of that money until the account is liquidated. When a merchant's note is due at the bank it must either be paid or a renewal arranged for, but the interest in either case is paid; and it is not a good policy that does not work both ways. Therefore, a customer is just as morally liable to the merchant for the interest on the past due account as the merchant is to the bank for the interest on his note that he is carrying to accommodate the customer.

The rich man has no logical excuse for delaying payment of his bill and the poor man simply cannot afford to. When a merchant sells a customer an article for a given amount it is with the definite understanding that he will be paid promptly, and if the customer does not pay it on time he is placing an unjust burden on the merchant.

If the opponents to the policy of charging interest are so philanthropic I would offer a suggestion to them that it might be good business to offer a discount to the customer who pays his bills promptly within thirty days and a further discount to the customer who pays cash. However, this cannot and will not be done, and brings us back to the point of making the delinquent customer pay for the accommodation.

As we all know, a policy of retrenching has been adopted generally throughout the country by business houses. In other words, the merchants have awakened to the fact that the matter of large volume without profit is valueless. They are going to be satisfied with a smaller volume that shows a margin of profit, and in many cases, if they cannot make profit on their merchandise it will have to be made on a reduction of expense to conform to the volume of business done. No business house can afford to be in business without profit.

If we credit managers are to keep step with this policy of retrenchment we must insist upon a uniform liquidation of accounts receivable, and our objective must be a reduction of capital tied up in our accounts receivable through the collection of these consistently slow accounts. Primarily, the object of a charge account is for the convenience of our customers, and it is recognized generally as a sound method of transacting business. But if a certain percentage of the charge customers are slow in liquidating their accounts it amounts to nothing more or less than advancing the customer that much money for which the store is paying interest to the bank.

The only solution is a Community Credit Policy

One thought that I desire to leave in this article is that the credit man of tomorrow must have a more thorough knowledge of the factors of profit and loss in the retail business, and I believe that definite knowledge of such factors must inevitably lead to definite credit policies economically correct.

However, let me again repeat, the charging of interest is offered not as a solution to this problem. The only solution that can be offered is a community credit policy, and until such a policy is in effect

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The Solicitation of New Charge Accounts

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account, and in case a letter is sent, enclose a simple form of application for credit with self-addressed, stamped envelope. In such cases where the application is filled out and returned, you are privileged to clear the application through the Credit Bureau before sending them the final notification that an account has been opened for use.

This method is being followed by several of the retail stores and has proven very simple as well as showing a substantial increase of their new accounts. I know of one store that 10% of their applications taken each month consists of these forms being returned through solicitation.

In certain localities, the lists of prospects as mentioned before, could be first checked as to their responsibility and paying habits before any form of solicitation is made. In other localities it is impossible to make a thorough check on every prospect. For instance, the information in the Seattle Credit Bureau is only available on those who actually apply for credit, although a certain amount of information could be obtained from different sources which would indicate that the prospect is entitled to a reasonable line of credit.

From a credit granting standpoint it is not ethical to send a letter to any of the prospective customers stating that an account has been opened for them unless sufficient information has been obtained before they have been solicited. Without first making some inquiry as to the responsibility of a prospect you not only reduce the collection percentage of the department, but are operating contrary to good credit business ethics. Applicants with a poor credit record are usually chronic merchandise returners and cause considerable annoyance to your adjustment department.

The soundness of soliciting new charge accounts depends entirely on the method used in obtaining them. It is not profitable nor practical to offer any person a charge account unless you know something about the individual with which you are dealing. But if you do make the proper investigation and use good judgment in your decisions it is unquestionably sound and profitable to solicit new charge accounts.

JUSTIN H. EDGERTON

First Vice-President

Mr. Justin H. Edgerton, Credit Manager of McCreery's, New York, is one of the outstanding credit men of the nation's metropolis.

Born in Providence, R. I., after leaving school he secured a position in a Department Store and has followed that line of business almost continuously since. For ten years he was connected with Best & Company, serving as assistant Credit Manager of their wholesale business, and later in full charge of the Credit Department.

Five years ago he became Credit Manager of James McCreery & Company, one of New York's important stores. He has always been active in credit organization work. For five years a Director of the Associated Retail Credit Men of New York, and is now serving his second term as President of that Association.

He has served on various National committees, the most important being the committee on Co-operation with the Wholesale Association, Credit Survey Committee, and during the past year rendered an exceptionally valuable service as Chairman of our Educational and Class Study Committee, a position to which he has been reappointed by President Hewitt.

Mr. Edgerton is gifted with a remarkable tenor voice and is the life of every social gathering he attends.

Owing to the resignation of Mr. Solon as First Vice-President, Mr. Edgerton, who had been elected Second Vice-President, was advanced by the Board of Directors to fill the vacancy created by Mr. Solon's resignation, and has the distinction of being both Second and First Vice-President within twenty-four hours.

Democratizing Bank Credit

By ROBERT O. BONNELL, President
Morris Plan Bankers Association

CONTRARY to many recent press notices and editorials, the establishment of a personal loan department by the National City Bank of New York is not a new banking plan. No feature of the plan as announced is new. It is merely an endorsement of a plan put into operation in Norfolk, Virginia, eighteen years ago, when the first Morris Plan bank opened its doors and began pioneering in human confidence. Since that time more than five million loans amounting to a billion dollars have been made by over a hundred Morris Plan banks to the same class of borrowers that America's largest bank now proposes to serve.

The National City Bank is by no means the first commercial bank, nor even the first large commercial bank to open an industrial loan department. For more than a year large commercial banks in Chicago, Philadelphia, Cincinnati and Louisville have been making such loans. Long before the New York bank's announcement, other commercial banks in Richmond, Virginia; Fort Wayne and Evansville, Indiana, had such departments.

The loaning plans of these various institutions follow very closely the fundamentals of the Morris Plan. The National City Bank's plan is almost identical with that employed by the Morris Plan Bank of Virginia, including the allowance of interest on the required periodical deposits. The New York bank's charges are a little lower, but the penalty for delinquency is greater.

The action of the National City Bank, however, is the most sincere compliment ever paid the Morris Plan of Industrial Banking. It is a confirmation by the highest banking authorities of the soundness of the principles Morris Plan banks have striven so long to vindicate, namely, that character and earning power can be made the basis of bank credit as well as a satisfactory average deposit and a financial statement showing the proper proportion of quick assets to current liabilities.

The entry of the country's largest bank into industrial banking along with several others which have followed, is simply another step toward the democratization of bank credit. Those who have pioneered in the field welcome their new business associates for they will inspire more confidence in the dependability of Morris Plan banks, and have already had the effect of increasing the use of their facilities.

Furthermore, costly experiments will be made by those financially able to bear the cost. It is reported that labor banks found it necessary to increase the rate on "personal loans" from 6% to 8%, with no allowance of interest on the regular deposits and that officials still complain that such loans are unprofitable.

On the other hand, the National City Bank of New York knows that altruism in banking is poor business. It knows that a "Loan Shark" is a credit gambler whose business asset is the misery and misfortune of others, and whose best weapon is his threat to increase the borrower's difficulties if the loan is not paid. As deplorable as this situation is, no banking institution can adequately supply credit to those who do not deserve it.

Increased borrowing facilities as a result of the willingness of some commercial banks to experiment, will help, but it is entirely too much to hope that the "Loan Shark" will vanish. The facilities now offered by the National City Bank have been available in over a hundred cities for nearly fifteen years, and some "Loan Sharks" are still to be found.

If these increased banking facilities could be supplemented by a campaign of education which would advise borrowers of their legal rights against unprincipled money lenders, much good would result. If Legal Aid Bureaus, Better Business Bureaus and public officials would evidence a greater interest in the problem and would co-operate with legitimate lending institutions, the back of the "Loan Shark" could be broken.

Relation Between Bank Credit and Retail Credit

By **GUY T. REED, Ass't Cashier and Credit Manager First National Bank, *St. Petersburg, Florida***

THE subject of this assignment is too broad and can be treated from so many angles that it is difficult to select the proper channel in which to carry on a discussion of it in the space of time allotted. However, there is ample time to devote to the theme of making the suggestion to you collectively, that each of you endeavor to perfect the closest co-operation between the banks and retailers of your particular localities as regards all matters affecting credit.

No doubt all of you have recognized the merits of such a policy individually, but there is an advantage in submitting a topic to the consideration of several. It is recognized that many accomplishments are affected by the meeting of minds on a subject if it is worthy of consideration.

The functions of the modern bank are many and varied, and the services expected by the public have increased in proportion. The most exacting of these is the extension of credit. In lean times and boom times the bank is called upon to meet the needs of the communities it serves and must continually rearrange its financial structure to meet any contingency which arises. To be able to do this, its composition must be so flexible and pliable a nature, it can shrink and expand and still retain its original proportions.

The problem of the retailer is largely the same. He too must serve the demands of the trade. He must keep his merchandise in line with requirements and must anticipate the buying power of his customers. He too is vitally affected by currents of prosperity and hard times and must be able to weather any emergency by having his money available for use and not on the shelf in dead stock, or on his books only to be charged off and thereby removed.

But on the other hand, the bank, to grow with a community, must lend all its resources to the progress and growth of that community, and the retailer must show an increase in the volume of his sales or else stand still and probably slip backwards.

Of course there are many problems the banker and retailer must solve alone, but in union there is strength and wherever possible to do so, they should work together. And in no way do I believe it can be done to better advantage than in the extension of credit.

All banks should be included in every retail credit association. In its province of lender, the bank is as much a retailer as any merchant on the street, for between the bank and the borrower money loses its character of a medium of exchange and becomes a commodity exactly the same as a pair of shoes, a suit of clothes, a sash or what not. In an Association of this sort they derive many benefits and in turn do not come empty handed. The requests for credit in every city are constantly interlocking between banks and the trade, and time and again the other man's slant has saved a loss.

The basis for all credit is confidence. It is trite to say so, but it is so true it bears countless repetitions, and to the prudent, confidence is only established by complete knowledge. If we can see the surface on which we walk, we step forward with the boldness born of lack of fear, but if the way is dark or obscure, we are prone to hesitate and feel our way. So to grant credit intelligently, we must be fully informed.

I have little patience with that type of business man that still exists who persists in the notion he can pass single handed on any credit risk. He scoffs at credit investigations, or the opinions of others, and relies on his own judgment and experience. He cherishes the delusion it is a reflection on his own sagacity to seek information on any subject. He knows all there is to know, or at least tries to convey that impression. Therefore he cannot afford to appear as if he were not always sure of himself. This type is to be seen in many businesses, but is fast disappearing from the progressive houses—from the real money makers. He cannot in the nature of things last in such an organization.

Departments for credit research and analysis have becomes the rule rather than the exception in every line of business. And where such departments function properly and are able to work in conjunction with other reliable sources of information, they pay handsome dividends.

A great deal of constructive work has been done in the past few years, but there remains yet much to be done. Too frequently the professional deadbeat collects his toll from a community and moves on to other fields. It is to be hoped that some day the lines will be drawn so closely, and there will be such complete co-operation and co-ordination between all the dealers in credit over the United States, that vultures of this sort will be eliminated.

You are all familiar with the various types that prey on the public. It is only necessary that they be classified and you know them at once. Your local credit bureau no doubt is doing its utmost along this line,

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Liability of Husband for Purchases by Wife

By R. PRESTON SHEALEY
Washington Representative
National Retail Credit Association

Much interest is being taken in a recent case presented before the courts of the District of Columbia, involving purchases made by the wife.

The case has developed into a test case, and is being prosecuted by the Saks Fur Company of Washington, through Messrs. Steinem and Korman, with the Associated Retail Credit Men and Secretary Talkes co-operating.

The facts in the case, as disclosed in the petition to the Court of Appeals for the District of Columbia to reverse the judgment of the lower court, are substantially as follows: The defendant's wife called at the establishment of the plaintiff in December of 1925 and purchased from petitioners merchandise in the amount of $253.00. This was charged in the name of the wife. The plaintiff investigated defendant's ability to pay and was advised that he was a Member of Congress and that his credit was good. Defendant maintained at the trial that he gave his wife $75.00 a month for the purchase of clothing and had instructed her not to go beyond this and not to charge any accounts to him. The defendant maintained that this account did not represent the purchase of necessaries, that it was not carried in his name but the plaintiff as an after-thought, after collection could not be made from the wife, tried to collect from him, that he had no knowledge of any purchases being made by the wife, and that the account had been carried in the name of the wife and in fact after she had made a payment of $8.00 on account she executed a note in her name for the remainder of the amount.

The lower court held for the defendant, and appeal was taken by the plaintiff. Part of the petition for writ of error is quoted here:

"It is true that the defendant testified that he supplied his wife with sufficient money to purchase her clothing, but it is submitted that the storekeeper who deals with the wife in good faith, has absolutely no way of ascertaining such a fact, and since the control of the wife's actions ought to be and is entirely in the hands of the husband, by all rules of good sense and justice, the merchants ought not to be required, and cannot be expected to inquire whether the wife receives an allowance from her husband at the time credit is extended. Credit is extended similarly in thousands of instances daily by local department and ladies' ready-to-wear stores, and it would be next impossible for these stores to make inquiries in each case in accordance with the decision of the municipal court."

It is also contended by the plaintiff that the ruling of the lower court leaves the merchants of Washington in an embarrassing situation, as it is impossible for them to find out whether a husband has an agreement with his wife whereby he gives her an allowance, or has authorized her to pledge his credit. Most stores carry accounts in the names of the wives, and it has been found inexpedient from a business standpoint and is resented by wives who make purchases to communicate with husbands at the time of the purchase and extension of credit.

If the holding of the lower court is not reversed it is contended that the merchants will have to submit a questionnaire to the wife and also to the husband, setting out their ability to pay and whether or not there is any agreement between them as to allowances.

The Court of Appeals has granted the petition for a writ of error, and it is expected that a final decision will be given in the fall.

For the information of the readers of this article, three provisions of the code of the District of Co-

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From the National Office

BALTIMORE HONORS PRESIDENT HEWITT

Hochschild, Kohn & Company, in honor of the election of President Hewitt, tendered him and the Baltimore Association a surprise luncheon.

The magnificent tribute paid to Mr. Hewitt at this luncheon for rising to the position of President of the N. R. C. A. was wonderful. They say "A prophet is without honor in his own country," but Mr. Hewitt's personality and ability have made him an exception to the rule, which is proven by the esteem in which Mr. Hewitt is held by his Association.

This meeting was well attended and a wonderful time was had by all those present. In honor of the occasion it was called "Hewitt Day," and each member present received a picture of Mr. Hewitt. As he was requested to autograph each picture individually, it was not surprising that he experienced the writer's cramp after the party was over. We, at the National office, are sorry that we could not have been present and help to show our respect and esteem for our new President.

KANSAS CITY, WE THANK YOU

The National office and National officers wish to take this opportunity of expressing, in addition to the following resolution which was unanimously passed, our appreciation of the very excellent manner in which Kansas City entertained and provided for the every want of the delegates who attended the *Sixteenth Annual Convention* of the Association.

The Kansas City delegates at Providence promised all delegates a real convention if the 1928 Convention would come to Kansas City. It came, for the "Heart of America" swelled and throbbed with hospitality and the following resolution, which was unanimously and clamorously passed by the Convention, proved that Kansas City and the Convention Committee certainly made good their promise.

Thanks to Convention Committees

The arduous work of caring for the housing and the entertainment of those who have attended this Convention, together with the time and effort spent in arrangements of the many details in connection with the preparation, and carrying out of the program of this, the Sixteenth Annual Convention of the National Retail Credit Association, has been most ably and thoroughly performed by a host of hospitable citizens. Especial thanks are due to all of the committees in charge of the various activities, to the Convention Bureau of the Kansas City Chamber of Commerce, to Ararat Temple Ancient and Accepted Nobles of the Mystic Shrine, to the Kansas City, Kansas, Retail Credit Group, and to Mr. P. M. Strayer, Mr. M. G. Riley, and to Mr. A. P. Lovett of the Kansas City Association. It is therefore ordered that the sincere thanks of the Convention be expressed to all who assisted in making the meetings so successful, and that a copy of this resolution be sent to the organizations and individuals above named.

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NASHVILLE IN 1929

The beautiful city of Nashville, Tennessee, has been chosen as the next Convention city.

When "Daddy" Poindexter's Nashvilleites set out to get something, they generally succeed in their endeavors.

The "Daddy" prefixing Mr. Poindexter's name denotes the esteem in which he is held by our membership.

Nashville is modest, and in their appeal for the next Convention, they said they would endeavor to give us as interesting, entertaining and educational Convention as we just had in Kansas City. Knowing the wonderful support of the National and the manner in which Nashville has always risen to any emergency and has never been called on and found wanting, we know that we are right in our predictions that all previous Convention cities are going to find that Nashville is going to entertain us in a manner which will be second to none.

Nashville has already started plans for the next Convention and their thoughtfulness and foresight can be pictured in the following instance: They have already forwarded "Our Dave," Manager-Treasurer, a reservation for hotel accommodations in 1929.

You may expect and plan on another real Convention in 1929 at Nashville and you will not be disappointed.

IMPORTANT RESOLUTION PASSED UNANIMOUSLY BY SIXTEENTH ANNUAL CONVENTION OF THE N. R. C. A.

The National Retail Credit Association, in annual convention assembled, thanks the President of the United States, the Secretary of Commerce, and the Director of the Bureau of Foreign and Domestic Commerce, for inaugurating the survey of retail credit, thereby indicating in no uncertain degree the interest of the administration in the welfare of the retail units and of consumers. This survey, in the opinion of this convention and as has been demonstrated by the deep interest already displayed by boards of trades, chambers of commerce, organizations of women and of labor, and nation-wide organizations generally, demonstrates the need for it and its importance to the nation.

Recognizing the very great importance the Department of Commerce now plays in assisting the business man to solve his problems and thereby insuring steady employment at commensurate wages for the toilers of the country, the National Retail Credit Association hereby stresses the importance as having as the next Secretary of Commerce a man who, by training and experience, fully measures up to the standards set for this office by the present incumbent.

Recognizing this necessity, the convention resolves:

1. That it is our desire to express our thanks to the President, to the Secretary of Commerce, and to the Director of the Bureau of Foreign and Domestic Commerce for the interest taken in connection with the problems of retail units through the retail credit survey now being conducted.

2. That we pledge ourselves to continue in co-operation with the Department of Commerce to the end that the usefulness of that department may be maintained at its present high standard of efficiency and of value to the nation and to industry.

That copies of this resolution be forwarded to the President of the United States and to the nominees of the Republican and Democratic parties.

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MILWAUKEE ELECTS NEW OFFICERS

May 24th our loyal Milwaukee Association met and elected new officers to carry on the excellent work done by the retiring officers.

We are indeed sorry that space prohibits our printing the entire list of officers and directors, together with a few of the outstanding characteristics of each, therefore, we will have to be content with the statement that Arthur H. Huff, one of the leaders of the Milwaukee credit circle and Credit Manager of the Electric Company, has been elected President for the coming year.

According to President Huff's plans, the membership drive will be continued with full steam ahead under the leadership of our old friend, Gus Miller.

We know in the future we can continue to look forward to Milwaukee as we have in the past for real support of this Association.

A LETTER FROM THE SECRETARY OF COMMERCE TO PRESIDENT MEYER

Mr. Leopold L. Meyer,
Foley Brothers Drygoods Co.,
Houston, Texas.

Dear Mr. Meyer:

I take great pleasure in informing you that the Department of Commerce has commenced preliminary plans for the retail research survey which the National Retail Credit Association has asked the Department to undertake. On Tuesday of last week we had an all day session at the Department with representatives present from the Bureau of Foreign and Domestic Commerce and the committee of your Association.

The preliminary work and the conference of Tuesday have indicated the need for this survey and I believe that the business men of the United States will be placed in possession of valuable information when the survey is completed. Elimination of waste is of great benefit to all of our citizens and it would seem that some of this waste is traceable to the credit departments. If we are right in this regard, this survey should do much to eliminate waste and your association is to be congratulated on the interest that it has taken in this matter.

With kind regards, I am

Sincerely yours,

(Signed) JULIUS KLEIN,
Director.

CANADIAN CREDIT MEN'S CONVENTION A SUCCESS

This convention, which was held at Halifax, Nova Scotia, and St. John, New Brunswick, from July 9th to 13th, was very educational and instructive. Besides an elaborate program of entertainment, they held a golf tournament on board the steamship "Empress" enroute to Nova Scotia. The two playlets depicting the trials and tribulations of a credit man were well received and showed the time and thought that were given by the members who put them across.

Relation Between Bank Credit and Retail Credits

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but it is handicapped unless it is receiving the whole hearted support of every concern in its locality.

Let's all return to our homes resolved that an accurate index is available to those who contribute their share to it containing the credit worthiness of every citizen there. And in closing, I would like to recite an incident that happened over in St. Petersburg as illustrative of the point I have tried to make clear, namely that 50% or 75% co-operation is not enough, but that 100% must be attained before credits can be handled satisfactorily.

This man came to town with uniformly satisfactory references. He had an agreeable manner which inspired confidence and showed a statement of substantial worth. He had a record of success that was enviable. Unfortunately the man was a crook and deliberately set out to swindle the banks and other business houses. This he succeeded in doing to the tune of some $50,000. Now in St. Petersburg there were two men who had the right dope on this party. They belonged to the local credit bureau and enjoyed the benefits of the information to be obtained there on their credit inquiries. But in this instance they did not see fit to volunteer information although by doing so they would have saved thousands of dollars to their friends and neighbors. They came forward when it was too late and the information they gave would have limited this man's credit to nil.

When one visualizes the needless loss involved in this single act of thoughtlessness or selfishness, it should make us all resolve never of ourselves to be responsible for a like disregard of our credit responsibility.

Should Interest be Charged on Past Due Accounts?

(*Continued from page 19*)

in every community in the country we will find competition in credit terms in every conceivable manner.

There must be a community policy adopted by every city if we are to eliminate this competition in terms, and if there is to be a start made in this direction it must be done regardless of whether all the merchants in the community subscribe to the idea at once or not.

A community credit policy will be a wonderful assistance for putting credit business on a sound basis and will eliminate that undesirable element, the "Shopper for Terms." It will do more towards standardizing our methods of credit procedure, place the credit granting retailer in a better light with the public and is the only means whereby the merchant can increase his percentage and reduce the many abuses which the modern credit department is subject to.

In conclusion let me add that the successful stores of the future will be a survival of the fittest, due to conducting the same on strictly business principles. The time is here when we must eliminate the idea of opening charge accounts with just anyone with whom we feel we can some time collect, because the cost of carrying such accounts eats up all the profits in the transaction, rendering that account an undesirable one.

Therefore, to get in line with the policy of retrenchment let us put our departments on a sound economic basis and prove that the credit department is a profitable department when operated on such a basis.

STEPHEN H. TALKES

Second Vice-President

Mr. Stephen H. Talkes, Secretary and Manager of the Associated Retail Credit Men of Washington, D. C., has the honor of being the first Credit Reporting Bureau member elected to the office of Vice-President. It is a well deserved honor, reflecting the acknowledgment of years of effort on the part of Mr. Talkes in building the National Association and placing a crown upon his success of the past two years as Chairman of our Service Department.

As Manager of the Credit Bureau in the nation's capital, Mr. Talkes has become known from coast to coast for the efficiency and thoroughness of the reports issued by his Bureau. He is recognized as an expert in Bureau organization and has assisted in organizing many of our efficient units. It was he who organized the Washington Bureau and has seen it grow from a handful of subscribers to its present membership of over four hundred, through his personal efforts.

We can all be assured our Second Vice-President is enthusiastically aggressive in building better Reporting service for the Merchants of the country.

The National Retail Credit Survey

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necessarily high prices discourage buying and reduce the sales of both manufacturers and farmers. On the other hand, anything that will help to reduce the costs of extending retail credit will be a boon to consumers, retailers, wholesalers, manufacturers and producers.

The uncertainty regarding the safety of present credit practices and the known facts regarding the high cost of credit extension, as practices now exist render it very important that the fullest possibly analysis of the underlying facts should be made available to the American business public at an early date.

In the Department of Commerce we have a pretty clear belief that the Government should not undertake to do those things which business men either individually or through their associations can do for themselves. When your officials proposed this survey our first question was whether your association could not undertake it without Government assistance. The answer to this was that many business men would hesitate to give the details of their operations to any association for fear that they might find their way to their competitors. The Government can with proper precautions guarantee that data from individual concerns will be held in strict confidence. Moreover, there is a mine of information in the various Government Departments, and the bankruptcy courts that would be available more readily to us than to any outside agencies.

Realizing the potential value of this study, and appreciating the fact that it is our job to help business help itself, the Department has consented to conduct this survey with your co-operation.

Your co-operation, however, is absolutely essential to the success of this work. We can not compile and analyze facts unless you make these facts available to us. Our plan is to base the body of this survey on two questionnaires, one to be filled in by representative retailers, and one by the representative consumers. We can not expect to reach every one by this method, nor can we expect that every one who receives a questionnaire will be able to answer all the questions asked. However, if all who get the questionnaires, and are able to answer them will do so, as completely and carefully as possible, we shall have facts from representative samples which we will consolidate into groups by geographic regions and by types of business. These summaries in turn will be published and made available for the use of all. No one need fear lest his report be identified in our office by irresponsible parties, and his business secrets become available to his competitors. Every precaution will be taken to keep the records of each individual business as confidential in our office as in yours. Summaries of groups only will be published.

We hope also that business men will not look on this survey as another annoying government investigation. We are undertaking the survey at the request of your own representatives, and not on our own initiative.

The summaries from the questionnaires will be brought together and analyzed in connection with all other information on the subject which is available in government offices or the files of private business. Several private agencies, which have a large body of information on this subject, have already kindly offered to share their knowledge with us for this study. We are gratefully accepting all such offers of assistance.

We wish to state that the Department is undertaking this study with an absolutely open mind to all relative facts which we can discover. We wish to get at the real facts, and to make these facts available without bias to the business world for such action as they may find it advantageous to take. We meditate no government regulation as the result of our work, but believe that business can regulate its own credit problems when it has the facts before it.

Those who claim it is wrong for any credit to be extended to consumers, and that only production should be so financed may not readily admit our open-mindedness on undertaking this study. The same may be true of those who claim that any person should have the privilege of buying as many goods he pleases on credit with no questions asked as to his likelihood of paying. However, our study to be of practical use must examine the real facts of existing business practices, and we are open to all evidence and facts that may be available to any quarter.

In addition to the questionnaire studies it is proposed to do a limited amount of field work which will enable us to secure more detailed information from selected individuals, and to bring together some summary of the best practices in credit operations.

It is, however, upon the questionnaires that we must depend chiefly in securing the information that is needed. I realize how much of a nuisance a questionnaire is. If it is anything worth while it requires time and thought to fill it out properly. We are proposing two questionnaires in this study—one to be filled out by consumers or individuals to get some idea of their credit commitments, and the other to be filled out by retailers. These questionnaires have been made out in co-operation with a committee from your association. In fact most of the questions were proposed by this committee and those that were not, have been ap-

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The National Retail Credit Survey

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proved. Hence the questionnaires are yours, rather than ours.

Comments on Consumers' Questionnaire

One of the proposed questionnaires is to be filled in by representative consumers. From the tabulation of these reports we expect to be able to show to what extent the incomes of representative groups of our consuming population are mortgaged in advance. If we can secure sufficient returns it will be possible to show the relative importance of the leading open charge account bills and installment purchase payments in this mortgaging of income. We expect to show this for the leading occupational groups in each district of the country, and hope also to be able to show the influence of income from investments and of several wage earners in the family on the credit habits of our consumers.

We are asking for some very intimate information from the consumers themselves in these questionnaires. They are asked to lay bare their finances in a way few of us would care to do to our friends. For this reason, we shall know each report by number and not by name and totals for large groups alone will be published. The questionnaires will be circulated through various channels, but they are all to be returned direct to us unsigned in sealed, self-addressed envelopes which require no postage.

In order to get the necessary wide distribution, we hope to be able to disburse them through several entirely different channels. We shall ask the local credit bureaus to send out these questionnaires to a considerable number of representative customers who are on their books. We hope to get various labor, business and professional organizations to circulate them among their members. We are also considering asking various large corporations doing business over a wide area to distribute these questionnaires among their employees with their request that the blanks be carefully filled in and mailed to us. In this way we plan to secure reports from thorough-going samples of various representative groups of the consumers.

Comments on the Retailers' Questionnaire

The questionnaire in which you are most vitally interested is the one to be sent to the retailers. Copies of this and the explanatory notes which accompany it have been distributed among you. This is the questionnaire which has been circulated in the city of Baltimore as a sample proposition, and from which some few results will be mentioned presently.

In looking over this questionnaire, you will notice that the questions asked apply solely to the retailers' own individual business. Just as in the case of the consumer's study, we are interested in the report for any individual business, only in order to add such data together for all the representatives in a business group. We decided to ask each retailer to sign his report in order that the responsible leaders of this study in our office may get in touch with any dealer whose report manifestly needs some additional attention. However, we put a number on the body of each report, and the same number on the signature slip and then cut off the signature. This is done when the report first reaches our office, and from then on the numbered signatures are available only to a responsible official and the report forms with their confidential figures are known to our clerical staff solely by number.

The retailers are asked to put a check mark in question one opposite the kind of business which they do. In question four they are asked to check the kinds of goods which they sell in each class of accounts, cash, open credit and deferred payment. For goods sold on deferred payment we also ask the retailer to state the usual deposit required, the usual number of payments and the life of the contract. We have left several lines blank for types of goods sold and not included in our list.

In question "Five," we ask for the amount of sales in each of the three accounts for each of the last three years. In order to be sure that we get net sales on each account, we ask for the gross sales and the returns and allowances as well as the final net sales. In the case of deferred payment sales, we have asked in Baltimore for the repossessions and salvage in addition to the other questions. This information would be very valuable, but it appears as though most concerns fail to keep such records.

In question "Six," we ask for the outstanding balance, or accounts receivable, on open credit, and deferred payment sales separately for twelve months, and the collections on each of these accounts in the corresponding twelve months of 1927. From the answers to this question we shall be able to show the true average percentage collections in each account for each of our business groups.

In question "Seven," we ask for the bad debts for the year 1927 in each of the two credit accounts separately.

Question "Eight" will show the extent of the use of finance companies in each type of business throughout the country.

Question "Nine" shows the method of credit scrutiny employed by each firm. We expect to sort the results in the other questions on the basis of the replies to this question. We shall then be able to show the average results of bad debts, etc., on the basis of the type of credit scrutiny.

Turn to page 31, please

Dentists and Their Credits

(*Continued from page 10*)

education has been much neglected in the past. Dental Schools and Dental Associations have been so persistent in the development of dentistry as a science that they have depended almost wholly upon the natural business talents of the young man to propel him in the practice of his profession rather than organizing for him additional courses in business principles. This condition, however, is now being remedied. Schools are inaugurating courses in dental economics; the young men are now being well informed regarding business ideas, including bookkeeping, credits, and investments. Teachers of this particular branch are appearing before the various dental societies and are holding classes to which the practitioners come and receive instruction. These classes include a checking of dental methods, and in fact, the installing of a complete system or plan of operation. As a result of this kind of schooling, I will tell you of the experience of a friend of mine.

A richly dressed woman recently came into his office and requested some dental work done. She was informed by his assistant that he did not have an open hour for her that day, but was given an appointment for the following day. Before the time for the appointment arrived, the assistant was able to look up her credit through the channels of the Credit Bureau and found that she was listed as absolutely "no good." With this knowledge, he was able to collect his fee by stipulating a down payment of $50 and additional payments as the work progressed. In this way, when the work was completed, he was not left with a "big bill and nothing down" to misquote a well known slogan.

Proceeding from the outside to ascertain the credit standing of a patient is far more practical than handing over a long list of bills to a collection agency which often is not any too responsible itself; for if they do collect and make settlement with the dentist, the agency usually retains 50 per cent of the account.

Many dentists have learned by bitter experience to employ the plan of collecting after each appointment in order to pay their own bills; but this method in turn works a hardship on those patients whose credit is good and who are entitled to consideration in this matter; so a membership in the Credit Association would be of value to the dentist as well as to the merchant and would help to remove the stigma of "slow pay" from the profession as a whole.

It has been the professions which have been the prey of the deadbeats and blue-sky artists, and one of the contributing causes is their lack of contact with those business agencies which could assist them. There are approximately 1,700 physicians in Kansas City, and only 125 are members of the Credit Association. Only two or three per cent of the dentists in the United States are now using this service and only 25 of the 500 in Kansas City are profiting by it.

There is a story told that Pat came to this country and met his friend Mike in New York. Mike took him to the police commissioner to register him for a job on the police force. He was told that there was not an opening just at that time, but they referred him to the dog pound master. Here Pat was given a long questionnaire and down towards the end of the manuscript was the question, "What is rabies, and what would you do for it?" Pat studied a long time concerning this technical question and finally it dawned upon him and he wrote down, "Rabies are Jew preachers, and I wouldn't do a damn thing for them.'

Dentistry is necessary to the life, health and happiness of every individual; but so far, for various reasons, the credit men of large concerns have indicated that they can do very little for the dentist. This should not be. A feeling of co-operation should exist between the Credit Association and the dentist, for the thing which will help the dentist will help the merchant; the thing which will help both the dentist and the merchant will help the city and so on. The greatest difficulty in business is the lack of confidence. We are hearing it said these days that there is something wrong with business and to my mind the lack of confidence is one of the contributing causes. Each group of individuals plays an important part in the affairs of the nation and this paramount fact should not and cannot be overlooked. We must work and live with these words of the poet in mind:

It ain't the guns nor armament
  Nor the funds that they can pay;
It's the close co-operation
  That makes them win the day.
It ain't the individual
  Nor the army as a whole;
But the everlastin' team work
  Of every bloomin' soul.

—*Kipling.*

Liability of Husband for Purchases by Wife

(*Continued from page 23*)

lumbia, on this subject, are given here:

"Sec. 1155. *Power of Wife to Trade, and to Sue and Be Sued*—Married women shall have power to engage in any business, and to contract, whether engaged in business or not, and to sue separately upon their contracts, and also to sue separately for the recovery, security, or protection of their property, and for torts committed against them, as fully and freely as if they were unmarried; contracts may also be made with them, and they may also be sued separately upon their contracts, whether made before or during marriage, and for wrongs independent of contract committed by them before or during their marriage, as fully as if they were unmarried, and upon judgments recovered against them execution may be issued as if they were unmarried; nor shall any husband be liable upon any contract made by his wife in her own name and upon her own responsibility, without his participation or sanction: *Provided,* That no married woman shall have power to make any contract as surety or guarantor, or as accommodation drawer, exceptor, maker, or indorser." (Note: The last clause, relative to surety, etc., has since been repealed.)

"Sec. 1156. *Contracts of Wife*—Every contract made by a married woman which she has the power to make shall be deemed to be made with reference to her estate which is made her separate estate by this chapter, and also her equitable separate estate, if any she has, as a source of credit to the extent of her power over the same, unless the contrary intent is expressed in the contract."

"Sec. 1177. *Husband Liable for Wife's Acts in Certain Cases*—Nothing in this chapter (which includes the above two sections) shall be construed to relieve the husband from liability for the debts, contracts, or engagements which the wife may incur or enter into upon the credit of her husband, or as his agent, or for necessaries for herself or for his or their children; but as to all such cases his liability shall be or continue as at common law."

The National Retail Credit Survey

(*Continued from page 29*)

Co-operation of the Credit Bureaus

We ask the credit bureaus to cooperate with us in getting good lists of the names of the representative dealers in their communities, and in urging by every means possible that all the leading retailers carefully fill in their reports and mail them to us. We are asking that each bureau address envelopes for four times as many *bona fide* retailers in its community as it has on its own membership list. Care should be taken to include none but actual retailers in the lists. We will furnish the envelopes and cards for duplicate check lists, and will ask you to send these to our nearest district office.

We shall also ask you to get in touch with all the retailers' organizations in your cities to enlist their active co-operation. Every possible step should be taken to create enthusiasm for this survey so that we shall have the most careful response to the questionnaire to serve as a solid basis for our final report.

In connection with the consumer's study, we shall request you to furnish us with lists of names to do everything possible in your communities to popularize the survey.

With the hearty co-operation of all interested parties we hope to be able to publish results which will aid you in your business, and also increase the prosperity of both producers and consumers. Without that co-operation, the survey will fail to furnish the information which you, through your Association, have asked for. We will do our best to carry out our end of the survey as promptly as possible, but the responsibility for getting returns back to us must rest with you. I know that we can count upon you to do this and we will work with you. (Applause.)

Installment Accounts

(Continued from page 13)

profit account. Thereafter, as the accounts are reduced below that figure, the deferred profit account is reduced by a like amount with a corresponding credit to income.

When this method is used, it is necessary to segregate the accounts by periods of sale, so that the amounts collected in excess of cost may be determined and transferred to income regularly.

Aging Installment Accounts

It is in estimating returns that the greatest difficulty may be met by the accountant. On many occasions there will be available credit department files which will purport to show the experience of the company in these respects and while they help in a general way they should not be relied upon until their accuracy has been fully established. The percentages, as in the case of ordinary charge accounts receivable, may not be high enough because the company may not have been following the policy of repossessing merchandise when collections can no longer be made and there may still be a large number of accounts remaining open upon the books representing merchandise which should be taken back and which would increase the percentages materially. The only effective basis for estimating returns is the aging of the accounts. The aging need not be made in full; the extent of the work may be varied depending upon the system of internal check and the accuracy with which the records are kept.

In aging ordinary charge accounts receivable, the gross balances are usually distributed according to the length of time elapsed since the date of sale. For installment accounts the aging should be considerably more elaborate in order to provide the necessary information.

In view of the fact that if a single installment of an account is in arrears the entire gross balance becomes doubtful, it is necessary to show, with regard to each of the gross balances, the earliest month for which a payment has not been made. When this part of the aging is summarized, information will be available to show what proportion of the total balances are in arrears one month, two months, three months, six months, etc.

Each account should be aged a second way: each of the gross balances should be distributed according to the month in which the last payment was received. This part of the aging will make it possible to know on what proportion of the total gross balances a payment has not been received in one month, two months, three months, six months, etc. This is advisable because, although an account may have at one time fallen in arrears, yet the customer may now be paying quite regularly although he may never have caught up on the installments once in arrears.

In addition to the aging of the two bases just outlined there should also be determined the amount of arrears, i. e., the amount that would actually have been collected by the date of the audit had the customers paid in accordance with the terms of the purchase. This is the phase of the work customarily undertaken for other classes of accounts receivable but, for installment accounts, it is the least important.

It is only when each account has been aged in the three ways outlined above that the totals will provide the information to be used as a basis for setting up proper reserves for returns and bad debts.

Surplus Adjustments

As in other matters, the accountant should urge the adoption of a conservative method without at the same time reducing the profits below reasonable figures. The first method will usually be found to be the one which clients prefer, except for tax purposes but, unfortunately, it is the one which presents the largest number of complications. At the time of a subsequent audit, it may be found that the last estimate made based, of course, on the factors known at the time, was insufficient. A change in economic conditions may not have been foreseen or a change in the quality of the product several months before the end of the period which has since caused larger returns may not have been known. Whether to make a surplus adjustment or a charge against profits in such instances is often one of the most difficult of matters which the accountant is called upon to decide, particularly since he can hardly ever be certain, under this method, that the new reserves he is providing are adequate.